



16/03/2006

Telefónica S.A., as provided in article 82 of the Spanish Securities Market Act (Ley del Mercado de Valores), hereby reports the following

SIGNIFICANT EVENT

With regard to TELEFÓNICA MÓVILES, S.A., in which TELEFÓNICA S.A. has, directly and indirectly, an interest of 92.46% of its share capital, TELEFÓNICA S.A. would like to inform hereby of its intention to submit a proposal to negotiate a possible merger between both companies to TELEFÓNICA MÓVILES, S.A. Board of Directors.

TELEFÓNICA, S.A. intends to propose an exchange ratio of four shares of TELEFÓNICA, S.A. for each five shares of TELEFÓNICA MÓVILES, S.A. Nonetheless, this exchange ratio will be subject to the valuation analysis of both companies, which will be submitted to their respective Boards of Directors on the meetings to be held on March 27th 2006 (TEM) and on March 29th 2006 (TEF).

Should the transaction proceed in accordance with the proposed terms, the Board of Directors of TELEFÓNICA S.A will propose to its General Shareholders' Meeting an increase of its share capital of a maximum of 261,320,118 shares, deducting, if applicable, the number of shares owned as treasury stock by TELEFÓNICA S.A at the moment of such capital increase.

As of today, TELEFÓNICA S.A owns approximately 3.9% of its share capital as treasury stock.

Madrid, March 16th, 2006

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